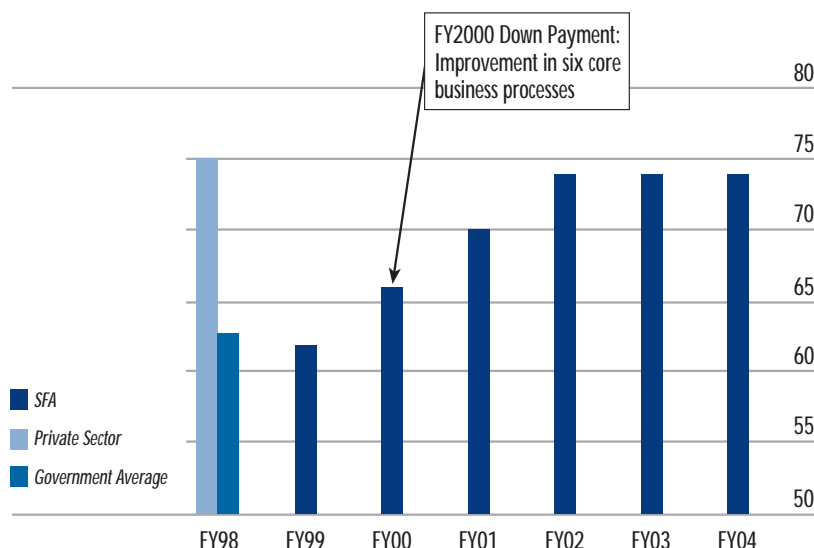
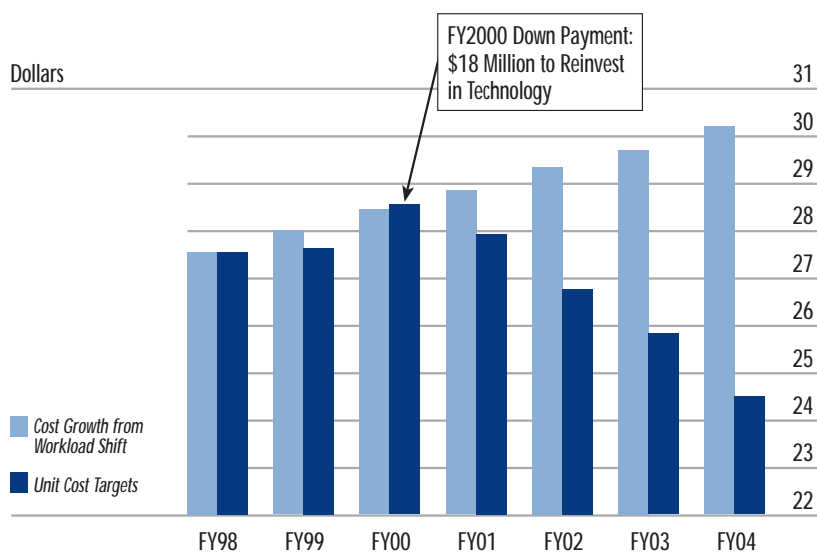


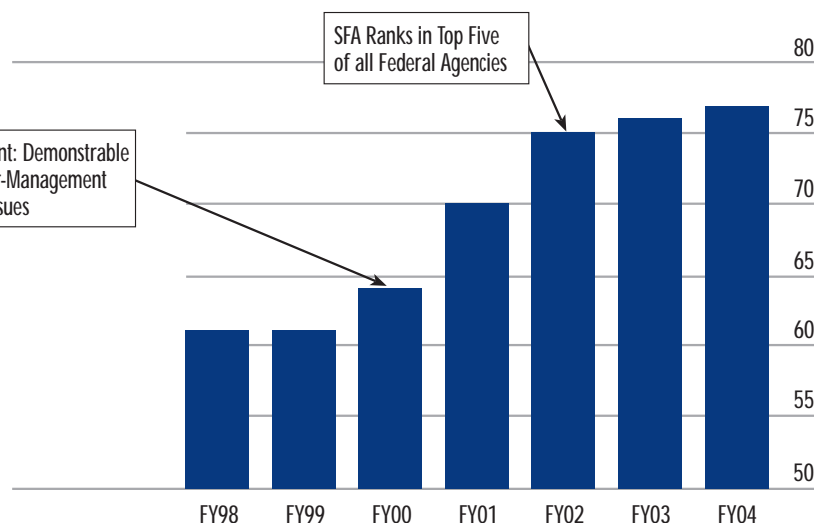
# The Performance Plan for Student Financial Assistance FY2000-FY2004



**Customer Satisfaction Equal to Private Sector in Three Years**



**Unit Cost Reduced 19 Percent**



**Employee Satisfaction Ranks in the Top Five**



8/31/00

## **EQUALING THE BEST**

Student Financial Assistance's mission is to help put America through school, and we've been doing it well. Since 1994, we have made more than 70 million loans and grants, and, in 1998 alone, invested 46 billion dollars in America's future. But growing workload has naturally driven taxpayer costs up, and the systems and the business processes that were built one at a time as loan and grant programs were authorized no longer work well together. Also in the last decade, private sector businesses have raised the bar on customer service. The same customers we serve are used to fast, convenient, tailored service in everything from on-line banking to pizza delivery. They gauge the quality of our service by what they get from the best in business.

Last year, Congress and the Administration agreed to give us an unprecedented opportunity to prove we can equal the best in business. They made SFA the government's first Performance Based Organization, giving us some leeway from federal procurement and personnel regulations in exchange for better performance.

This document is SFA's first five-year performance plan. It is our commitment to use the freedom of the PBO to make specific, measurable improvements in service, efficiency, and system integration. It is a contract with Secretary Riley, whose leadership and support are essential — with the Congress, who gave us this chance to excel — and with the American people, who rightly expect the best.

# The Performance Plan For Student Financial Assistance

## **The Requirement for this Plan**

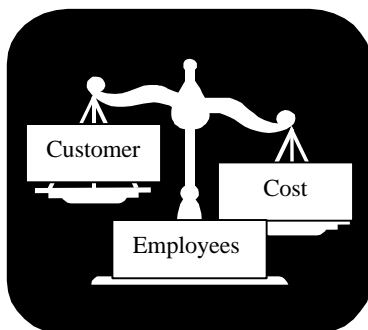
The Higher Education Act Amendments of 1998 require that the Chief Operating Officer of Student Financial Assistance “make available to the public a performance plan...for the succeeding five years that establishes measurable goals and objectives for the organization.” The plan must address the following:

- Improving Service
- Reducing Costs
- Improving and Integrating Support Systems, and
- Developing an Open, Common, and Integrated Delivery and Information System

This document contains detailed information on our goals for improving service, reducing costs, and to some extent, systems integration and the modernization plans that support these efforts. Our goals for addressing improvement and integration of support systems and the development of an integrated delivery and information system are addressed in depth in our System Modernization Blueprint, which should be considered part of this performance plan. For more detailed information on our integration and modernization plans, we invite you to review our System Modernization Blueprint, which is available on the Web at <http://sfablueprint.ed.gov>. If you have questions about our five-year performance plan, please e-mail [SFAFiveYearPerformancePlan@ed.gov](mailto:SFAFiveYearPerformancePlan@ed.gov).

## **Performance Measures and Objectives**

The measures of my performance as Chief Operating Officer, and that of Student Financial Assistance overall, are customer satisfaction, unit cost, and — because it is essential to improving both — employee satisfaction. It is a simple, balanced scorecard like the best in business use — companies



like FedEx and American Express — even successful public organizations like the US Postal Service.

Our five-year goals are stated in terms of specific, quantifiable improvements in those three measures<sup>1</sup>. Each measure and each goal is discussed in the following paragraphs. But, since we are still in our first year as a PBO — a transition year — we are still in the process of developing the thorough data gathering and measurement systems that a PBO needs. We have aggregate baselines and tracking mechanisms for all three measures, but we will be refining each and expanding their application during this transition year.

### **A Simple Scorecard**

To make rapid changes in large organizations, you have to keep the goals simple — three things that everyone in the organization can relate to his job and use to make good choices. It has worked for government as well as the best in business. Dan Goldin took NASA from being a source of national concern to being one of pride with three, simple goals: safe shuttle flights, building the space station, and reaching Mars. The US Postal Service boosted on-time delivery in Washington and Chicago from 50 percent to over 90 percent with the same simple, balanced scorecard we will use: focused on customers, cost, and employees.

Since we are in transition, we augmented each of our five-year goals with a specific and verifiable commitment for the first full year, FY2000. It is a kind of *down payment* on the long-term plan. In addition, SFA will undertake a substantial list of first-year projects (Appendix A), all of which are designed to improve customer and employee satisfaction and to reduce cost.

Customer Satisfaction Measure We will let the customers be our judge. It is far too common for agencies — and for that matter, businesses — to decide for themselves what customers want, and then measure performance on that. It's almost always the wrong thing.

A classic example is the state drivers license bureau that decided their customers wanted shorter lines. The bureau had devised an expensive plan to add more examiners and a faster computer system. But when they *asked*

---

<sup>1</sup> These goals will be used as the SFA portion of the Department's Government Performance and Results Act (GPRA) plan.

their customers, they found the number one complaint was not the long lines, but the unflattering photos.

Using a Customer Service Task Force, we asked our customers *before* we devised our plan. They gave us a good list of first-year projects to work on, which are included in Appendix A. We will track the progress of those projects, but our ultimate goal will be to increase customer satisfaction. So we will keep asking customers what they want.

#### **Subjective and Objective**

Customer satisfaction is subjective. But by asking customers their likes and dislikes, we learn what changes to make in our systems and services — changes we can measure objectively, like how fast we turn around an application. These changes should improve customer satisfaction. We plan to measure objective service changes as well as the ultimate, subjective, customer satisfaction.

Our Customer Service Task Force collected nearly 8000 comments from customers and front-line employees about what works well, and what doesn't. Many of their recommendations ([www.ed.gov/cstf](http://www.ed.gov/cstf)) are on our first year to-do list.

We will keep getting customer feedback so we will have a new to-do list each year. But we will constantly measure customer satisfaction.

#### **Keeping Our Balance**

The customer, cost, and employee goals will work throughout the organization. Balancing these goals, a call-center operator might decide to spend a little more time completely answering a customer's question and avoid our cost of having him call again. A programmer would rewrite software in the Java language so more customers can use it and it's cheaper for us to maintain. A division manager could decide to invest in laptops and cell-phones so our caseworkers can spend more time on campus and know what's going on. A simple, balanced scorecard does more than measure performance — it aligns everyone to improve it.

Recently, for the first time, SFA got scored in the American Customer Satisfaction Index, an annual survey done by the University of Michigan. Since 1994, Michigan has conducted surveys and published quarterly customer satisfaction ratings for hundreds of private businesses — ratings that stock market analysts routinely use to predict future financial performance. Their surveys have included a few government agencies — the IRS, the Postal Service, local police and garbage collection. Over the past five years, on a scale of 100, private sector index scores for the finance and insurance industry — the segment most like SFA — have been in the mid-70s. Public sector scores have been ten to 15 points lower.

This past quarter, Michigan expanded the ACSI to cover dozens of federal agencies, including SFA, that have direct contact with the public. In our

case, the University of Michigan surveyed only students and parents who had applied for federal aid using our on-line, Web-based application. Those customers gave us a satisfaction index score of 63 — about average for government services.

Past surveys of SFA customers conducted in different ways by other groups, such as Macro, have produced higher ratings. But ACSI is a national standard that allows us to compare ourselves with the best in business. Our goal is to raise our ACSI rating to 74 — the comparable private sector service industry average — by the year 2002.

### Interim Performance

Last winter we published interim performance Indicators of Success to guide SFA until we finished this first full-fledged performance plan this September. The interim performance Indicators of Success fall into three categories:

- **Improve Customer Service** — by encouraging customers to apply on-line rather than on paper, introducing new electronic services, and collaborating better with partners who also serve our customers.
- **Reduce the Overall Cost of Delivering Student Aid** — by beginning with the development of cost baselines and a financial management system to accurately measure unit costs and track our \$150 billion loan portfolio.
- **Transform SFA into a Performance-Based Organization** — by laying the groundwork so we can operate like the best in business with satisfied customers and employees, modern information technology, and a system to turn customer complaints into service improvements.

We've made good progress. Our latest quarterly report on the interim Indicators of Success is at Appendix B. We will publish the same kind of quarterly reports on our progress toward the goals in this five-year plan.

We will call on the University of Michigan and others to help us greatly expand the survey readings on our entire customer population — information in enough depth and detail to use for management. We will need to know what aspects of our service — timeliness, courtesy, and so forth — are satisfactory or need improvement. We will need useful, *actionable* information at every level of our organization.

This year, we will develop detailed customer satisfaction surveys and ratings for each of our ten core business processes.

**Student Services**

- Aid Awareness
- Aid Application
- Loan Repayment

**School Services**

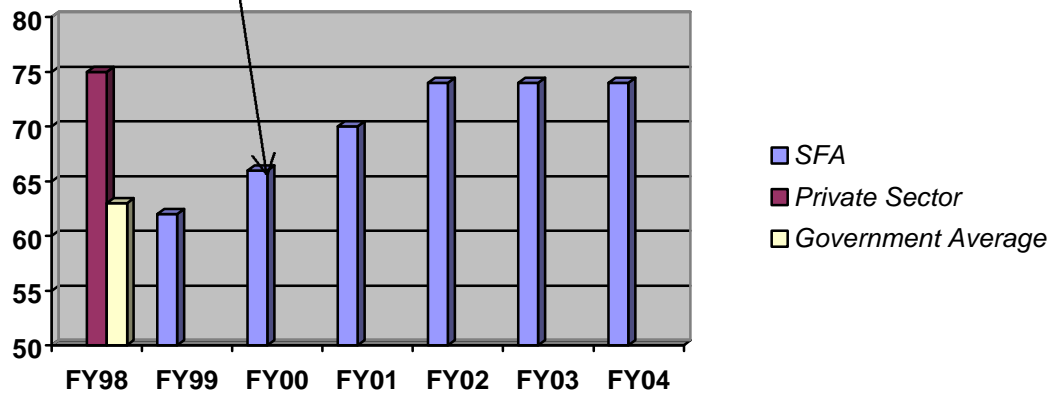
- Aid Origination and Disbursement
- Program Eligibility
- Program Support
- Financial Transactions

**Financial Partner Services**

- Program Eligibility
- Program Support
- Financial Transactions

The surveys we run on these core business processes will ask whether the student, school, or financial partner has seen an improvement in service during our fiscal year 2000. As a down payment on our commitment to bring our customer satisfaction ratings up equal to the best in business, we will commit to deliver an improvement in satisfaction — as measured by the “have we gotten better this year” question — for six out of ten of our core business processes, with a substantial number of customers (70 percent or more) reporting improvements in at least one process for each channel. Of course, we won’t let customer satisfaction with any of our processes slip.

**FY2000 Down Payment:  
Improvement in six core  
business processes**

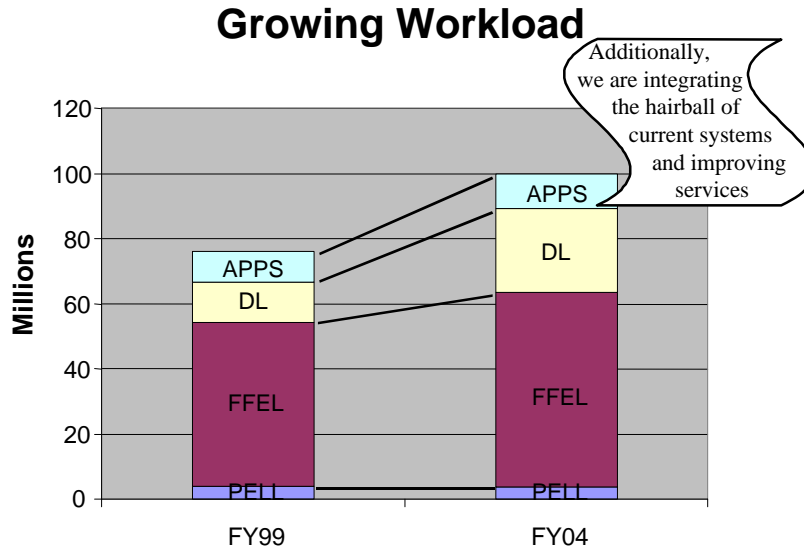


### **SFA Customer Satisfaction Equal to Private Sector in Three Years**

Surveys aren't the only way we'll find out what our customers want — or what they think of what they're getting. Our call center operators, for example, will be able to evaluate customer satisfaction with specific aspects of our business processes. We'll capture that information and get it to employees who can act on it. Our Ombudsman, who will focus on the most intractable service problems, will also collect information that we will use to improve the delivery system. Every time our organization contacts a customer, we'll take the opportunity to gauge our performance and find ways to improve it.

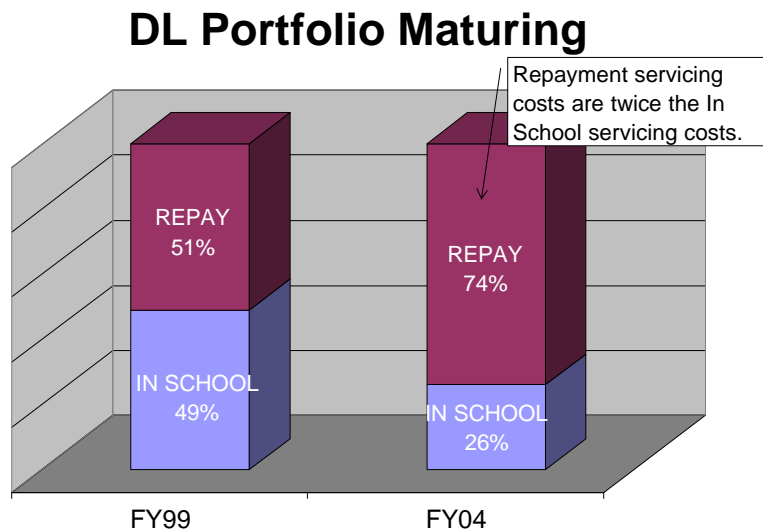
Cost. Our total cost of operations is being pushed strongly upward by two forces — increases in our total workload, and shifts from less expensive work to more expensive work. Our total workload is growing because the number of high school graduates is growing — and will continue to grow over the next decade — all the while the cost of college continues to climb. That means a sharply growing demand for student aid. By 2004, we expect the Direct Student Loan portfolio to double, the much larger FFEL portfolio to increase by 20 percent, and application volume to grow by nearly a million. And, of course, integrating and modernizing our computer systems and improving customer service entails a lot more work, too.



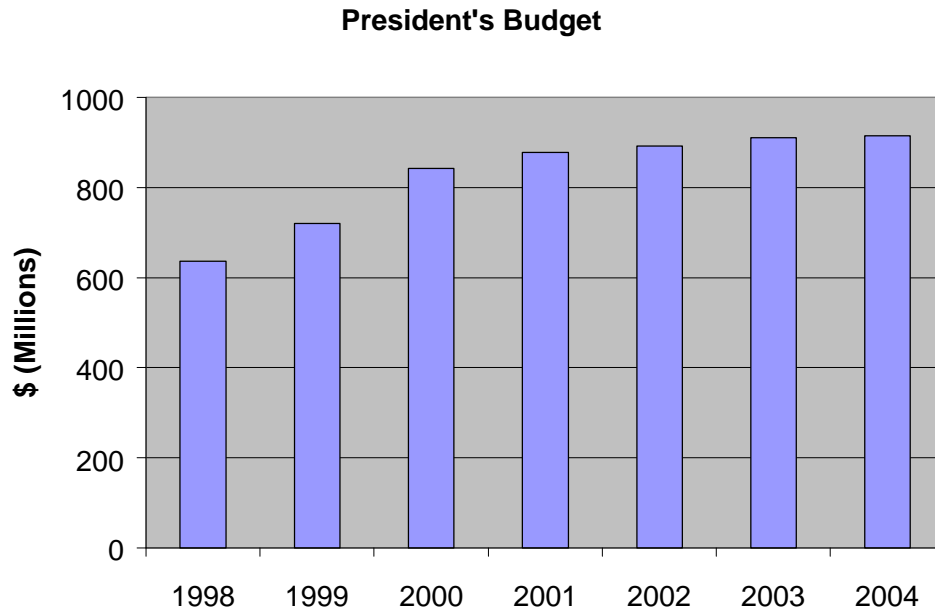


Besides the higher cost of more work, the makeup of our work is shifting to a more costly mix. The shift has two important components. First, as shown in the preceding figure, the Direct Loan portfolio, for which SFA bears all the servicing costs, is growing at a faster rate than the FFEL portfolio, for which SFA's budget includes only the cost of oversight and guaranty agency fees. (See Appendix E for a complete cost comparison.)

Second, the relatively young Direct Loan portfolio is maturing. Right now, most Direct Loan borrowers are still in school, the time when our servicing cost is lowest. But in the next five years, more and more of them will graduate and begin repaying their loans, as illustrated by the following figure. Our servicing costs in the repayment phase are about twice those of the in-school phase.

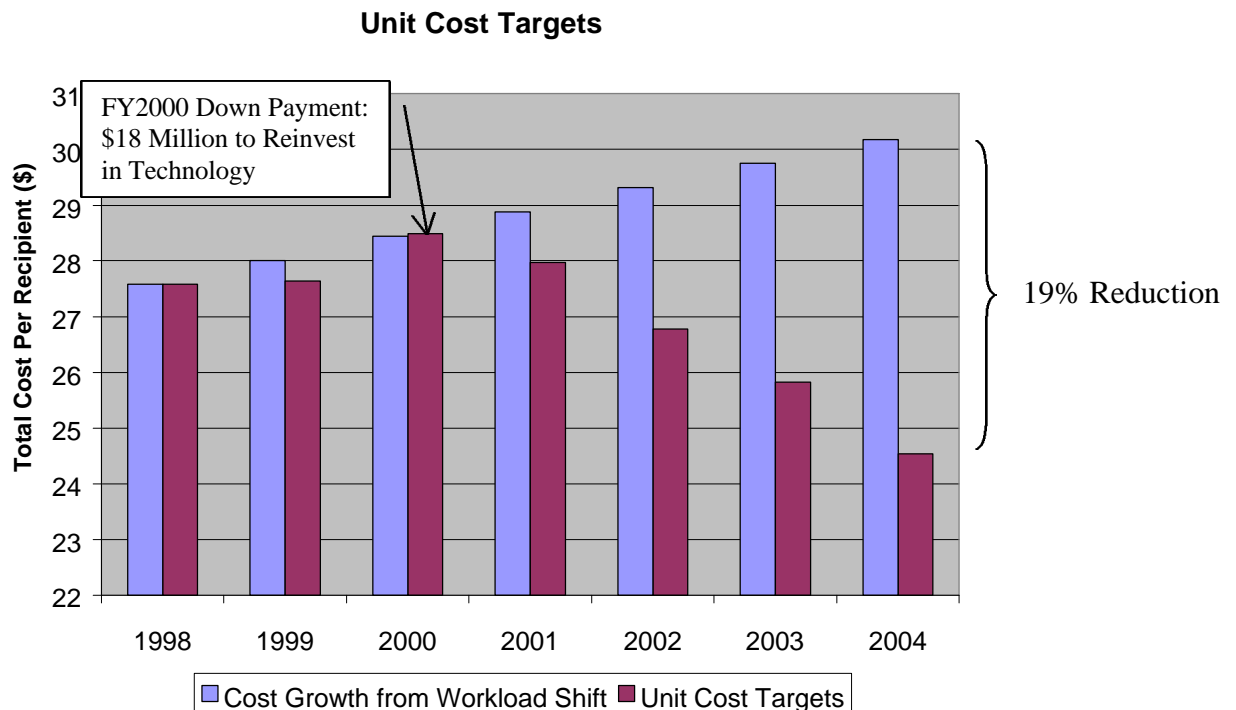


While workload growth and shifts to more expensive work are driving costs up, the President's budget is fairly flat beyond FY2001, as shown in the following graph.



We are focused on the cost of delivering aid and services to each recipient. Dividing our budget by our recipients gives our unit cost. In aggregate, it is the total cost of our activities divided by the number of recipients of loans and grants. In daily practice, we will track and manage all the costs of individual activities (activity based costing) that generate products and services such as loans, grants, applications, telephone assistance, and mailing notices.

Our five year commitment is to cut unit cost enough to overcome both the increase in workload and the unavoidable shift to a more expensive phase in servicing operations, and stay within the President's Budget. The shift to a more expensive phase of servicing by itself would drive overall unit costs up by ten percent over the next five years. The following graph shows our current unit cost targets by year until 2004. Simply put, we will cut unit cost by 19 percent by 2004.



That hard fact compels us to move aggressively away from pushing paper and toward electronic transactions, which provide better service at a vastly reduced unit cost. For example, data from the Federal Reserve member banks show that electronic applications for installment loans cost less than two dollars each, compared with more than \$40 for paper applications —

and that electronic loan payments cost about 12 cents each, compared with two dollars for non-electronic payments. We also know from our own experience that electronic applications are as much as 25 times less likely to contain errors that cost money and delay service. The potential improvement in cost and quality is so large that we must develop strategies to provide electronic service even to those who may not now have access to the Internet.

Our graph of unit cost targets actually shows a slight increase in FY2000. That is because, besides servicing costs going up, we plan major investments in electronic solutions that are needed to reach our unit cost cutting targets in years two and three of our plan. However, \$18 million of the investment made in FY2000 will actually come from cost cutting actions this year. The balance of the investment comes from increases included in appropriations.

To show we are making cost cutting progress immediately, our annual report for FY2000 will specify the cuts made that reduce operating expenses by \$18 million. Note we have the double incentive to create these savings: first, to live up to this down payment pledge; and second, to fund the Systems Modernization Blueprint on which our future success depends.

Achieving the cost reduction goals — both the \$18 million down payment and the five-year reduction in unit cost — will be extremely challenging, but is perfectly possible. The strategy in our System Modernization Blueprint is stolen from the best financial service firms in the private sector, such as Bank America and Bank One. They have used the same system integration approach to cut operating costs by 20 percent. We are moving just as aggressively to cut costs. To meet our FY2000 target, we will shift over one million applicants from paper processing to electronic means. Also in FY2000, we will save ten percent on day in and day out computing costs by consolidating systems at our new virtual data center in Connecticut. Reengineering of our direct loan processing will also generate substantial savings. And even mundane things like presorting bulk mail to reduce postage rates can generate millions to reinvest in technology in FY2000.

### **Tombstone Territory**

We have to overhaul our old computer systems if we're to cut cost and deliver modern service. Our System Modernization Blueprint (<http://sfablueprint.ed.gov>) follows this basic strategy:

- Use middleware to separate applications from their “stovepiped” databases.
- Use a secure Intranet to create a virtual database for new applications, with information stored only once.
- Retire or transform many of the old systems over the next three years — the Blueprint uses a little tombstone to mark each passage.

### Net losses

Cutting our administrative unit cost is not our only way to save. Reducing defaults (See Appendix F) or increasing collections can rack up potentially bigger savings. Our net losses (defaults minus collections) in 1998 totaled \$775 million, nearly twice as much as our \$433 million administrative cost.

Calculating multi-year projections for net losses is inherently more complex than calculating projections for administrative unit costs. Default rates and collections have been changing dramatically in recent years, in part because of management steps such as removing problem schools from the program, counseling borrowers, and offering more

flexible repayment options, and in part because of the influences of a strong economy.

However, we can make these commitments concerning the net loss component of our unit cost. First, we will work to reduce our net losses by lowering defaults and improving collections, and we will report on our efforts. Second, we will determine a net loss reduction goal for FY2000. When we update our performance plan next year, we will be able to combine the administrative and net loss components of our unit cost into a single, total unit cost measure.

Employee Satisfaction. The reasons to measure customer satisfaction and cost are obvious. Employee satisfaction is also a high priority because top businesses have found that good service and cost control only happen when everyone — not just the boss — applies energy and creativity to those same goals.

### **What Workers Want**

When asked, SFA employees said they want work that clearly makes a difference for America — and the training, tools, and responsibility to do that work well. In partnership with the union, all SFA managers have “delivering what workers want” high on their to-do list this year.

Just like customers, employees are the only legitimate judges of their own satisfaction. In 1998, the Office of Personnel Management conducted an employee opinion survey covering 49 federal organizations. The survey was designed to gauge employee perceptions of their agency’s progress in putting customers first, cutting red tape, and empowering front-line workers. In the initial survey, SFA employees ranked among the highest when it came to working in teams and improved flexibility and productivity. But they also noted problem areas, such as the lack of a system to capture customer feedback and get it to employees who can act on it, and weaknesses in management’s communication of the organization’s mission, vision, and values, and in taking corrective action when employees do not meet performance standards.

In addition to the information from the OPM survey, our Customer Service Task Force got input from hundreds of SFA employees about what would help them do a better job. The task force recommended that we:

- Develop mission-based job descriptions for all employees
- Institute a leadership development program that focuses on inculcating PBO principles and values
- Launch SFA University to transform SFA into a learning organization
  - Define SFA core competencies and conduct a gap analysis between current and desired skill levels
  - Implement a curriculum to develop SFA core competencies in each employee
  - Establish a career management plan with every employee through an Individualized Development Plan
- Give employees access to all of the information they need to answer customer questions and resolve most customer issues in one contact

- Determine employees' equipment (hardware and software), facility and supply needs, and close the gap
- Develop a range of incentives that address both intrinsic and extrinsic motivation
- Establish an *Ideas Advocate*
- Conduct structured interviews with departing employees
- Consolidate a number of employee feedback streams
- Provide a safe, healthy and attractive work environment
- Better meet the needs of disabled employees
- Use flexible workplace and flexible schedules
- Give employees the authority to act and the responsibility for results
- Conduct substantive orientation for all new employees, and current employees who have not had a substantive orientation

Obviously, we have a multi-year agenda to improve employee conditions and capabilities. We will work through our Labor-Management Partnership Council to identify our employees' most serious and immediate concerns and make solving them our action plan for year one.

As an overall measure of employee satisfaction, we can look at one of the key questions in the OPM employee opinion survey, which read, "*Considering everything, how satisfied are you with your job?*" Seventy-four percent of employees at the top-ranking agency, NASA, said they were satisfied or very satisfied with their jobs. Only 61 percent of SFA employees answered that question that way, slightly below average. SFA ranked 33<sup>rd</sup> out of 50 agencies on that question.

With a mission as inspiring as ours, our employee satisfaction rating should be tops. Anyone who doubts the inspirational power of our mission needs only to consider this e-mail we recently received:

**Subject:**            *A Joyful Student*

*Last Friday was the tuition deadline at our college. I spent a few hours at the front counter helping students. Some were happy, some were mad, but one was unforgettable.*

*She came in to check on the status of her aid. I told her we finished her yesterday. Pell had paid her tuition and fees and she could go to the bookstore anytime to charge her books. The student broke out in tears and said, "You mean I can go to college". It didn't matter how many students had complained that day. She is the one I'll remember.*

*Lisa A. Hanson*

*Director of Financial Aid  
Carl Sandburg College*

The employees of SFA help put America through school. Our goal is to raise the level of employee satisfaction into the top five of all government agencies within three years. They deserve no less.

OPM will be repeating their survey this December, and we hope to see some progress. But, as with the University of Michigan's customer satisfaction survey, OPM's government-wide survey sample is too small to make it a good SFA management tool. We will conduct far more detailed surveys using, among other sources, the annual employee ratings of their supervisors in the Department's performance appraisal system, to tell us which managers are bringing out the best in their workers, and how we are doing on issues that are most urgent to our employees.

As a FY2000 down payment on our long-range commitment to raise employee satisfaction, we will pick five big issues our Labor-Management Partnership Council identifies and make demonstrable progress on those five issues this year.





## **Performance of the Management Team**

The core of the new SFA senior management team consists of the General Managers for Student, School, and Financial Partner channels, along with the Chief Information Officer and the Chief Financial Officer. To ensure that we work as a team, half of each manager's performance grade will depend on overall SFA performance in customer satisfaction, unit cost, and employee satisfaction. The other half will depend on meeting key operational performance levels and completing key projects.

Each of these managers is responsible for completing a list of first-year projects shown in Appendix A. Each manager's list includes ongoing operational responsibilities — in other words, they have to keep the trains running. For example, the General Manager for Students will make sure that we continue to process aid applications in six days or less. We could spend time and money trying to get that standard down to, say, five days. But we're not sure that would make much difference to our customers. Applicants might, for example, care more about getting confirmation that we have received their application — a change that would cost us less than speeding up the process. So, we are not automatically raising speed standards, nor chasing any goals the customers might not care about. Our surveys will tell us what they care about and where to focus our investments.

Appendix A does include projects that we already know customers care about — projects that came from the Customer Service Task Force “listening sessions” with our customers and with the front-line employees who know them best. One such project is implicit for all three General Managers — constantly keeping in touch with their customers to get ideas for more projects. That way, we avoid the most common mistake in customer service — deciding what the customers want without asking them.

Appendix A also includes projects that are required by statute. For example, The Chief Information Officer has important projects that fulfill our statutory requirements to improve and integrate support systems, and to develop an open, common, and integrated delivery and information system. The complete detail of our plan to improve and integrate systems is the System Modernization Blueprint (<http://sfablueprint.ed.gov>).

Two statutory projects are not in Appendix A, because they are completed. One is the establishment of an Ombudsman. The Office of the Ombudsman is now in operation, receiving calls on 1-877-557-2575, with a Web site at <http://sfahelp.ed.gov>. We have modeled our Ombudsman on the best in business. So, not only do borrowers have somewhere to turn to solve otherwise intractable problems, but the problems are analyzed and used to improve service and to avoid repeated problems. The second completed statutory project gives students secure Web access to their account information in the National Student Loan Data System.

The projects in Appendix A also include steps needed to resolve all outstanding issues involving financial system weaknesses that have been raised by the Government Accounting Office or the Departmental Inspector General. We have made good progress in the past year resolving such problems, and only a few remain. Our focus will be on beginning the implementation of a robust financial management system, continuing improvement of data quality and resolving audit findings more timely. While the Chief Financial Officer will provide leadership and direction for these efforts, all facets of the organization will provide input and support.

Next year, we will report on our progress in improving customer satisfaction and employee satisfaction, and reducing unit cost. In particular, we will report our achievements on the pledges of FY2000 down payments. We will also report our progress on the year-one projects listed in Appendix A, and will update the list with new projects that will matter to our customers.

### **Everything Aligned for Success**

We have an extraordinary management team in place and it has the task of engaging the energies of our entire workforce in this extraordinary enterprise. With everything aligned, everyone's goals set, and everyone engaged, we will succeed in meeting the challenge as the nation's first Performance Based Organization.

### **Aligning Everything for Success**

- First, our Customer Service Task Force opened channels of communication with customers and partners, finding out from them how to improve service.
- Then we reorganized our people and business processes to line up with those same channels, under General Managers for students, schools, and financial partners.
- Those channel managers took ownership of the computer applications and business processes, including support contracts, that serve their customer segments.
- Our System Modernization Blueprint borrows best-in-business practices from the financial sector, using middle ware to create applications that are focused on each channel and draw from common data that are stored only once. The Blueprint spells out projects to put in place in a modular fashion. The major projects will go to our Information Technology Investment Review Board, as required by the Clinger-Cohen technology management legislation, in order to determine which goes first, second, and so on, so they produce maximum service improvements and savings.
- Our new financial management system will allow every channel and segment manager to focus attention on making SFA not only work better, but cost less.
- Using our PBO flexibility, we acquired a Modernization Partner from the private sector who will share the risks and rewards of making the Blueprint a reality.
- Support contracts are also being renegotiated to put them on the same performance basis we are on — with incentives to improve service and cut costs.

# **Appendices**

**Appendix A: First Year Projects: The Senior Management Team**

**Appendix B: Interim Performance Plan**

**Appendix C: Unit Cost Calculations**

**Appendix D: Unit Cost Escalatory Factors**

**Appendix E: Comparison of FFEL and Direct Loans**

**Appendix F: Life of Loan Default Rates**

## General Manager For Students

The General Manager for Students has *three objectives*: improved customer satisfaction among aid applicants and their families, reduced unit costs related to student channel operations, and improved satisfaction among employees who work to support student services. To succeed in those five-year objectives, the GM will undertake a variety of one-

year projects. Some of the projects will primarily improve satisfaction ratings, some will primarily reduce costs. But most of them, such as getting more applicants to file on-line or reducing turnaround time for processing forbearance requests, move the organization forward toward all three objectives. The indicators of success for each individual project — beginning with the important work of maintaining at least the current level of service in core processes — are as follows:

Outside Channels
Not all of SFA's important changes fall within the responsibilities of the five top managers. For example, the Ombudsman, whose job it is to solve the toughest borrower problems, reports directly to the COO. The Director of Analysis, who also reports to the COO, will collect detailed customer and employee satisfaction data, track program performance, and provide information to inform the Department's policy makers. And the Director of Acquisition will take full advantage of the PBO's increased freedom to give our support contractors the same kind of performance goals we have.

### Indicators of success in maintaining current performance levels:

- Process loan consolidations in 60 days or less. Currently averaging 50 days.
- Keep the default recovery rate at ten percent or higher. Rate is currently 10.5 percent.
- Call center (1-800-4FEDAID) answers 95 percent of phone calls.
- Reduce the lifetime default rate.
- Process Free Applications for Federal Student Aid (FAFSAs) with an average turnaround time of eight days or less. Currently averaging six days.
- Respond to internal audit reports within the timeframe specified.

### **Indicators of success in increasing aid awareness among potential post-secondary students and their families:**

- Create a new, high-quality, SFA web site linked to the Access America web site and the Department's "Think College Early" web site. Pending OMB guidance, link to appropriate sites in the education community (by September 2000).
- Ensure that information is provided in accessible formats to meet Department of Education standards for special needs, such as Braille and TTY for the sight and hearing impaired (by September 2000).
- Partner with the Puerto Rican education community to focus on their needs, translate more of our publications into Spanish and post them on a Spanish version of our web page (by September 2000).
- Sponsor the first annual workshop to promote outreach partnership (by September 2000).
- Test all new aid awareness products and services with students and parents to make sure they are understandable.

### **Indicators of success in simplifying the application process:**

- Redesign the 2001-2002 Free Application for Federal Student Aid (FAFSA) to make it demonstrably simpler and more user-friendly (by September 2000).
- Redesign the Direct Loan consolidation electronic application to make it demonstrably simpler and more user-friendly (by September 2000).
- Work with five states and college consortia so data from college applications can be electronically applied to fill out FAFSA on the Web (by September 2000).
- Expand FAFSA Correction on the Web capabilities (by September 2000).
- Provide mechanism for students to check the status of their FAFSAs and to notify students when processing is completed (by September 2000).
- Work with the IRS to participate in a pilot test of electronic matching of income data (by September 2000).
- Develop a Direct Consolidation Loan web site and allow electronic submission of Direct Loan consolidation forms (except for forms requiring actual signatures) via the Internet (by September 2000).
- Test all proposed changes to our application processing forms with focus groups of current and former students (by September 2000).

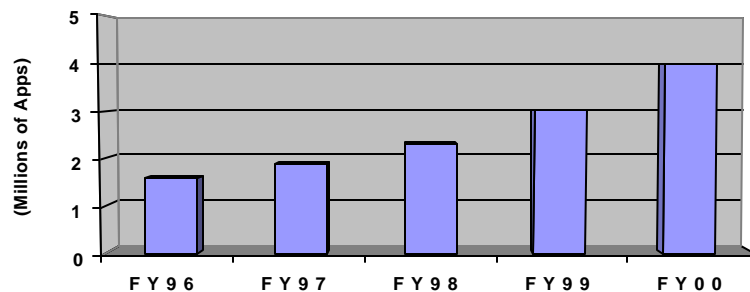
- Include all our forms in a "pdf" file format on our web site (by September 2000).

**Indicators of success helping more students succeed in repaying their loans:**

- Establish one toll-free number for "one call" student customer service. This will include TTY (by September 2000).
- Reduce turnaround time for processing Direct Loan forbearance and deferment requests. The current contract standard is within ten days from the date of receipt and the current baseline averages between five and seven days (by September 2000).

**Indicators of success in doing more of our business electronically, and less on paper.**

- Increase the number of FAFSAs filed electronically from three million to four million in FY2000 (by September 2000).



**Electronically Filed FAFSA's to Four Million in FY2000**

- Eliminate paper processing (with the exception of promissory notes) for students participating in our MENTOR Project in the state of New York (by March 2000).
- Partner with the National Student Loan Clearinghouse so we can eliminate mismatches in enrollment information between our own and our partner's processes (by August 2000).

**Indicators of success in increasing collections by five percent (FY98 baseline was \$1.9 billion):**

- Try at least five new ways to make debt collection more effective, less costly, and more customer service oriented (by September 2000).
- Increase by five, the number of guaranty agency partnerships with SFA designed to improve portfolio management (by September 2000).



## **General Manager For Schools**

The General Manager for Schools has *three objectives*: improved customer satisfaction and compliance among school administrators and financial aid advisors, reduced unit costs related to school operations, and improved satisfaction among employees who work to support school services. To succeed in those objectives, the GM will undertake a variety of projects this year. Some of the projects will primarily improve satisfaction ratings, some will primarily reduce costs. But most of them, such as resolving school audits within six months of receipt, move the organization forward toward all the objectives. The indicators of success for each individual project — beginning with the important work of maintaining at least the current level of service — are as follows:

### **Indicators of success in maintaining current levels of services:**

- Keep the cohort default rate under ten percent. The current baseline is 8.8 percent
- Identify schools that fail to submit audits or that submit audit reports late and take appropriate action.
- Respond to internal audit reports within the timeframe specified.

### **Indicators of success in completing all critical transactions affecting schools' participation so that disruptions for students and schools are minimal:**

- Process 95 percent of school recertifications within 120 days of receipt. The current benchmark is 42 percent.
- Complete 95 percent of reimbursement requests within 30 days.
- Resolve 90 percent of school audits within six months of receipt. The current baseline is 82 percent.
- Process Direct Loan origination and disbursement records within three days. The current baseline is three days.
- Process PELL funding requests within 24-36 hours. The current baseline is three days.

### **Indicators of success in improving the program eligibility process:**

- Expand our current initiatives for new schools, including the creation of an eligibility checklist, preparing instructions on how to begin to draw funds, providing onsite technical assistance if requested, and extending an invitation to come to the regional office to meet the SFA staff (by September 2000).
- Expand our current initiatives to help non-compliant schools and schools on reimbursement prepare action plans to improve their management of Title IV programs (by September 2000).

### **Indicators of success in adapting our products and schedule to meet the differing needs of various school segments:**

- Assign each school a contact point who will be a part of a Customer Service Team with the know-how and authority to solve problems with one call (by July 2000). The contact point for institutions will respond to an institution's inquiry within 48 hours.
- Post the schedule of SFA publications needed by schools on our web site, and get public feedback on it (by January 2000).
- Participate in the Partnership Forum (establish Partnership Council Teams with our school partners) to develop common business processes and interchange standards for Pell, Direct loans and FFELP. Ensure delivery of quality customer service and address other common concerns. (by July 2000).
- Allow schools to download all SFA software and materials through IFAP or the SFA web site (by April 2000).
- Involve schools in operational decisions to assess their impact, and test changes with schools before implementing them (by September 2000).

### **Indicators of success in simplifying financial transactions, aid origination and disbursements.**

- Increase schools access to SFA databases within Privacy Act constraints and with appropriate security measures (by June 2000).
- Improve the Direct Loan origination, reconciliation and closeout process (by September 2000). Test and evaluate an alternative origination and payments system using a commercial servicer as part of the Access America for Students project.

**Indicators of success in reengineering business processes:**

- Electronically process official cohort rate appeals based on new data (by September 2000).
- Initiate a feasibility study to identify the technology solutions that can be used to fully automate the compliance audit and financial statement submission and review process (by September 2000).
- Work with schools to improve the quality of data in PEPS.

## **General Manager for Financial Partners**

The General Manager for Financial Partners has *three objectives*: improved customer satisfaction and compliance among lenders and guaranty agencies, reduced unit costs related to financial partner operations, and improved satisfaction among employees who work to support financial partner services. To succeed in those objectives, the GM will undertake a variety of projects this year. Some of the projects will primarily improve satisfaction ratings, some will primarily reduce costs. But many of them, such as developing electronic payment and reporting systems, move the organization forward toward all the objectives. The indicators of success for each individual project — beginning with the important work of maintaining at least the current level of service — are as follows:

### **Indicators of success in maintaining current performance levels:**

- Reduce the lifetime default rate.
- Identify guaranty agencies and lenders that submit audit reports late and take appropriate action.
- Respond to internal audit reports within the timeframe specified.

### **Indicator of success in resolving administrative issues involving program eligibility more quickly:**

- Create a rapid response team to identify and to address serious administrative problems (by January 2000).
- Within the Financial Partners channel, develop a project team and management methodology consistent with SFA enterprise-wide tools.

### **Indicators of success in exchanging information electronically with our financial partners:**

- Continue to work with guaranty agencies and lenders to maintain the quality of data in NSLDS.
- Assign each financial partner a contact point within a customer service team with the know-how and the authority to get questions answered and problems solved (by January 2000).

- Give guarantors access to all the information in the National Student Loan Data System, subject to Privacy Act considerations and appropriate security measures (by September 2000).
- Involve our partners in the design of everything that affects them (by April 2000).
- Join current guarantor and lender groups or establish Partnership Council Teams with guaranty agencies and lenders to develop guiding principles of quality service, training and technical assistance materials, performance data for benchmarking purposes, develop common standards and operating rules to simplify transactions, and to address issues to improve service to students (by June 2000).
- Develop electronic payment/reporting systems in cooperation with guarantors (by September 2000).
- Continuously ask our financial partners two questions: "Are we doing a better job as your partner?" and "What can we do next year to improve even more?"

#### **Indicators of success in cutting the net losses:**

- Increase the default recovery rate for loans in default held by guaranty agencies (by September 2000).
- Enter into up to six Voluntary Flexible Agreements with guaranty agencies in FY 2000, as called for in legislation, to experiment with improved ways to deliver aid, improve program integrity, and realize cost efficiencies (by June 2000).
- Reduce fraudulent death and disability cases below 1998 baseline (by December 1999).
- Within the Financial Partners channel, develop a project team and management methodology consistent with SFA enterprise-wide tools.

## **Chief Information Officer**

The Chief Information Officer has *three objectives*: improved customer and employee satisfaction and reduced unit costs. To succeed in those objectives and to integrate our legacy systems, the CIO will concentrate on projects included in our System Modernization Blueprint. Each project within the Blueprint will go to our Investment Review Board, as required by the Clinger-Cohen technology management legislation, so they are assured of producing both service improvements and savings. The indicators of success for each individual project — beginning with the important work of maintaining current services through Y2K — are as follows:

### **Indicators of success in transitioning into the Year 2000 with minimum disruption of service to students, schools, or financial partners:**

- Provide outreach services to the school community in Year 2000 preparedness, which will result in a Year 2000 school readiness measure in excess of 70 percent as reflected in a Department focused survey (by October 1999).
- Provide all Student Aid financial services without invoking contingency plans as a result of a major delivery system failure (by January 2000).
- Manage the transition of all systems into the millennium in accordance with OCIO Day One plans with all events occurring as planned (by January 2000).
- Manage the implementation of new systems or changes to systems from November 1999 to March 2000 with minimum risk and resulting in no system failures (by March 2000).

### **Indicator of success in completing the first year schedule of the System Modernization Blueprint Sequencing Plan.**

- Achieve 90 percent of the annual major modernization milestones that have been approved by the Information Technology Investment Review Board (by September 2000).

**Indicators of success in maintaining the data system and communication infrastructure service levels, while reducing the operating cost by ten percent through consolidation of operations:**

- Reduce overall volume-adjusted operating costs for systems migrated to the consolidated data center by ten percent (by September 2000).
- Work with schools to improve the quality of data in NSLDS (by September 2000).
- Respond to internal audit reports within the timeframe specified.

**Indicators of success in maintaining and refining our System Modernization Blueprint, which addresses two of the PBO's statutory responsibilities:**

- Update the Modernization Blueprint by including Level Three and Four details, as developed, for each project undertaken. Publish updated blueprint semi-annually.

## **Chief Financial Officer**

The Chief Financial Officer shares the objectives of improved customer and employee satisfaction. But the CFO's primary responsibilities involve the objective of reducing unit cost, focusing on the development of a financial management system that will permit unit cost tracking and control in every segment of the SFA operation. The indicators of success of those projects, starting with the important task of preparing clean financial statements, are as follows:

### **Indicators of success in reducing the number of internal control and audit issues reported:**

- Receive an unqualified opinion on the FY99 financial statement audit (by March 2000).
- Respond to internal audit reports within the timeframe specified.

### **Indicator of success in establishing an interim cost accounting methodology to measure unit costs for SFA major business processes, and to provide managers with costing information for important processes within their organizations:**

- Interim Activity Based Cost accounting system is operational (by April 2000).

### **Indicator of success in completing the year-one schedule for development of a robust, integrated SFA financial management system that will include full subsidiary ledger structures supporting the PBO requirements as well as providing appropriate information to the Department's financial management system.**

- Complete Phases I and II of the Financial Management System (to include the design and proof of concept).





# Interim Performance Objectives

Final Report Fiscal Year 1999

## Student Financial Assistance



*We help put America through school*



A MESSAGE  
FROM THE  
CHIEF OPERATING  
OFFICER

Dear Customers and Partners:

I am proud to send you SFA's final report on the Interim Performance Plan. We have met, and even surpassed, nearly all our goals. Take a look at the Status at a Glance chart on the first page. We have new products such as Direct Loan entrance and exit counseling, a website that allows students to correct their aid applications online, and a subsidiary ledger system design. We are doing our core business better too — processing aid applications faster, consolidating loans faster, awarding Pell grants faster, and helping more borrowers to avoid defaulting on their loans. We've also met all the major milestones on our way to becoming a Performance Based Organization — we found out from our customers what they want, realigned our organization and business processes so we can deliver what they want, completed a Computer Systems Modernization Blueprint, and hired a modernization partner to help us use computers like the best in business use them to cut costs and satisfy customers.

The interim goals were essentially met. The preparation is complete. Now SFA is ready to show what a PBO can do. In our Five-Year Performance Plan we will narrow our focus to three measures of success and set our sights high. We'll raise our **customer satisfaction** index from a level typical of government to the range enjoyed by America's best financial service companies. We will reduce our **unit cost** — the amount we spend administering per recipient — by one-fifth. And our **employee satisfaction rating** will soar from mediocre to the level of NASA workers who reach for the stars. Why shouldn't SFA employees find their jobs just as satisfying? After all, they help put America through school.

Look for our Five-Year Performance Plan. It will be out next month and we'll report progress quarterly.



INTERIM PERFORMANCE INDICATOR STATUS AT A GLANCE

September 30, 1999

Objective	Indicator	Status
Improve Customer Satisfaction	New Recipient Financial Management System in place by Aug 30, 1999 <ul style="list-style-type: none"><li>Initial Authorization (5/26/99)</li><li>Origination (5/26/99)</li><li>Disbursement (6/30/99)</li><li>MIS/IPOS/Other (8/13/99)</li></ul>	<div>✓</div> <div>✓</div> <div>✓</div> <div>✓</div>
	Complete, validate, and put in use all Y2K systems conversions by 3/31/99	<div>✓</div>
	Process aid applications within eight days	<div>✓</div>
	Provide capability to disburse Direct Loan funds while students wait	X Dropped for low customer interest
	Process Direct Loan Consolidation applications in 60 days or less	<div>✓</div>
	Improve processing of key financial transactions	<div>✓</div>
	Complete all critical transactions affecting schools' participation to minimize disruptions for students	✓ Minimized disruption, X Backlogs still too high
	Create five new positive experiences in service delivery	<div>✓</div>
	Introduce five new electronic products and services	<div>✓</div>
	Establish program to collect customer preferences by 9/30/99	<div>✓</div>
	Attract 3 million electronic filings through 9/30/99	<div>✓</div>
Reduce the Overall Cost of Delivering Student Aid	Establish baseline student aid delivery costs	<div>✓</div>
	Create core measures for judging cost reduction	<div>✓</div>
	Provide support to receive a clean audit opinion on financial statements	<div>✓</div>
	Maintain default recovery rate at 10 percent or more	<div>✓</div>
	Continue actions necessary to maintain cohort default rate at 10 percent or less	<div>✓</div>
	Use performance-based contracts in all major new awards	<div>✓</div>
	Implement acquisition strategy that uses performance-based contracting	<div>✓</div>
	Extend current contracts to avoid cost impacts	<div>✓</div>
	Review PBO operations to identify opportunities to reduce cost	<div>✓</div>
	Develop incentives to encourage high performance by our partners	<div>✓</div>
	Design subsidiary ledgers	<div>✓</div>
Transform the Student Financial Assistance Office Into a Performance-Based Organization	Deliver a preliminary budget plan to Congress (4/5/99)	<div>✓</div>
	Identify best practices that can be used to benchmark our processes (7/1/99)	<div>✓</div>
	Deliver a customer service and satisfaction improvement report (7/1/99)	<div>✓</div>
	Conduct collaborative working sessions with partners	<div>✓</div>
	Test all major publications, training materials, and electronic products	<div>✓</div>
	Develop a Human Resources and Organizational Plan	<div>✓</div>
	Develop a system to measure employee satisfaction	<div>✓</div>
	Hire an Ombudsman and build a complaint cherishing system	<div>✓</div>
	Complete a modernization blueprint	<div>✓</div>
	Deliver a 5-year performance plan for the PBO	November

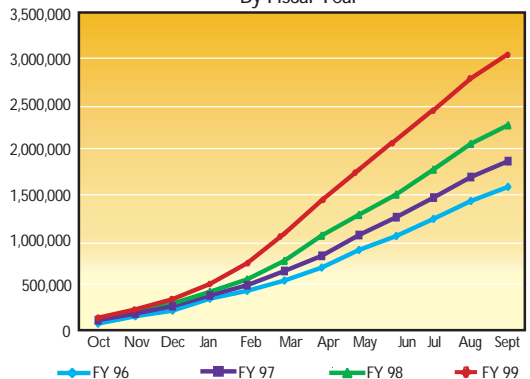
# 1

## OBJECTIVE ONE: Improve Customer Service

- ❖ SFA completed its Y2K renovation and testing in early March, and now we are working to ensure that our partners are also ready for the new millennium. We are exchanging test data with schools and financial partners and posting the "Testing Honor Roll" on the Department's Y2K web page (<http://www.ed.gov/offices/OCIO/year/b2c1.html>).
- ❖ Our goal was to provide customers with five new positive experiences in service delivery. We came up with nine. New, better services since the last quarterly report include: FAFSA Corrections on the Web, web-based Direct Loan Exit Counseling, and the establishment of "business partnerships" with Guaranty Agencies to share best practices related to debt collection efforts.
- ❖ We met our goal to introduce five new electronic products and services. One such product is "SFA COACH," a basic training course for school aid administrators. Its development was accelerated in response to the expressed needs of our partners. Available on the web, the course contains 21 lessons with a total of 36 coming on line by January 2000. A preview version available on CD was recently mailed to schools.
- ❖ We met the spirit of one goal, but not the letter. We set out to complete all critical transactions affecting schools so that we would not disrupt service to the students. We did manage to avoid disrupting service to students, but only by devising workarounds for late transactions. We'll keep this goal on the books and keep working on it.
- ❖ We dropped one goal that we thought was a great idea, but schools didn't. We wanted *at least half of the Direct Loan schools to disburse money to students while they wait*. Through surveys we learned that only about one-third of schools wanted to use this flexibility. Some schools, for example, have a policy not to disburse funds before the Department accepts the promissory note. We'll continue to make the option available to all Direct Loan schools.



**FAFSAs Filed Electronically**  
By Fiscal Year

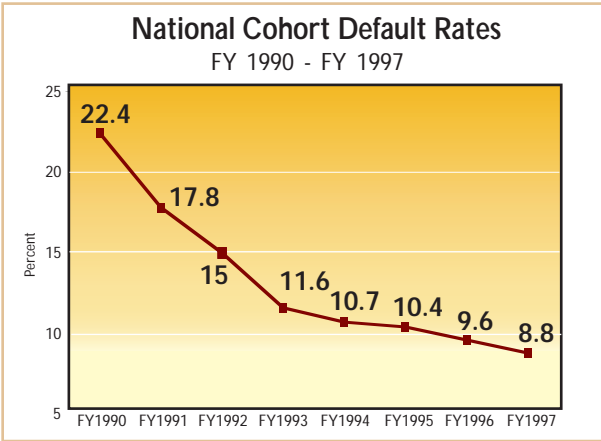


SFA met its goal of receiving  
3 million electronic FAFSAs in 1999

# 2

## OBJECTIVE TWO: Reduce the Overall Cost of Delivering Student Aid

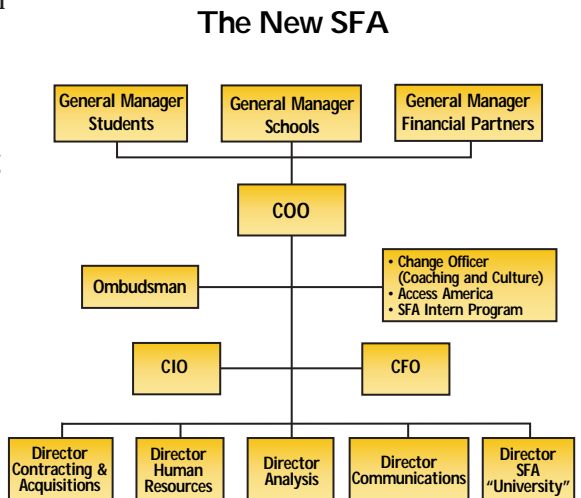
- ❖ This quarter, we established base-line estimates of the overall unit cost of delivering student aid. The next step is to disaggregate the total unit cost into a unit cost for each of our major business processes. That will give us a new management grip on things, and focus everyone's energies on a critical measure of success — cutting unit costs by one-fifth.
- ❖ Default costs dwarf all others, so we work especially hard helping borrowers avoid defaulting on their loans. On October 5, the Department announced the national student loan default rate fell to 8.8 percent for fiscal year 1997, the lowest point since the federal government started tracking and managing the rate. It is the seventh consecutive year of decline.
- ❖ We completed the conceptual design of a financial management system that will include cost accounting and full subsidiary ledger structures to support SFA requirements and provide important management information.



# 3

## OBJECTIVE THREE: Transform the Student Financial Assistance Office Into a Performance-Based Organization

- ❖ During the last quarter, we released the Computer System Modernization Blueprint. This version of the blueprint follows extensive dialogue with the student aid community on several earlier drafts. The blueprint maps SFA plans to modernize and integrate its systems based on the best private sector practices.
- ❖ We have created an SFA Ombudsman organization equipped with a complaint tracking system, hotline, and website. Our Ombudsman is helping customers resolve the most intractable problems and is collecting information that we will use to improve our services and prevent future problems.
- ❖ We have reorganized our workforce and our business processes to align with our customer segments. We have three general managers — for Students, Schools, and Financial Partners — a CIO, and a CFO. We have filled all the top jobs with top-notch people, several of them experts in their field from the private and public sectors.
- ❖ Our Five-Year Performance Plan is on the Web at [www.ed.gov/offices/OSFAP](http://www.ed.gov/offices/OSFAP) for public review and comment. We will deliver it to Congress in November.



# FEDERAL STUDENT FINANCIAL ASSISTANCE

## Program Volumes and the Federal Aid Programs' Contribution that Help Students Pay for their Postsecondary Education

Number and Dollar Amount of Federal Student Aid Awards  
by the Office of Student Financial Assistance, U.S. Department of Education  
FY 1999 - FY 2000<sup>1</sup>

	FY 1999 (Est)		FY 2000 (Est) <sup>2</sup>	
	No. of Awards (Mil)	\$ Awarded (Bil)	No. of Awards (Mil)	\$ Awarded (Bil)
Pell Grants	3.8	7.4	3.9	7.9
Federal Family Education Loans (FFEL)	5.5	20.4	5.8	21.4
Federal Direct Student Loans (DL)	2.9	10.1	2.9	10.6
Consolidation Loans <sup>3</sup>	0.7	12.5	0.4	7.7
Campus-Based Programs	2.7	2.9	2.8	3.0
Work-Study	0.9	1.0	1.0	1.1
Supplemental Grants	1.1	0.8	1.1	0.8
Perkins Loans	0.7	1.1	0.7	1.1
Leveraging Educational Assistance Partnerships <sup>4</sup>	0.1	0.1	0.1	0.1
<b>Total</b>	<b>15.7</b>	<b>53.2</b>	<b>15.9</b>	<b>50.6</b>

**Number of Students Aided by SFA Programs (Unduplicated Count)**

<b>8.2</b>	<b>8.5</b>
------------	------------

Note: Totals may not add due to rounding.

<sup>1</sup>Shows total aid generated by the Office of Student Financial Assistance, including Federal Family Education Loan capital, Perkins Loan capital from institutional revolving funds, and institutional and matching state funds.

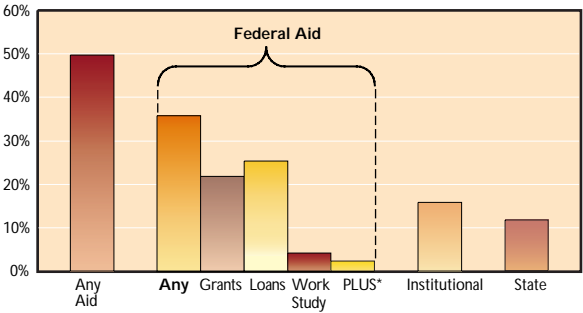
<sup>2</sup>Based upon requested amounts in the FY 2000 President's Budget.

<sup>3</sup>New FFEL and DL issued to consolidate existing loans.

<sup>4</sup>Reflects the LEAP program's statutory dollar for dollar state matching requirements.

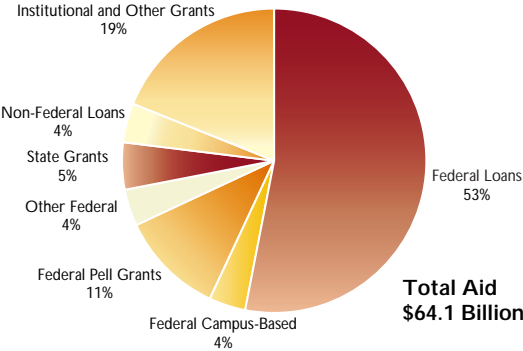
SOURCE: U.S. Department of Education, Office of the Undersecretary

Percentage of Undergraduates Receiving Aid  
by Aid Type



SOURCE: US Department of Education, 1995-96 National Postsecondary Student Aid Study  
\*Parent Loan for Undergraduate Students

Estimated Student Aid by Source  
for Academic Year 1998-99  
(Dollars)



SOURCE: The College Board, Trends in Student Aid 1999

## Appendix C

### ADMINISTRATIVE COSTS PER AID RECIPIENT \*

	1998 Actual	2004 Baseline Projection
--	----------------	--------------------------------

#### COSTS (Mil \$):

Contract Costs	245	606
Labor Costs	82	104
Other Costs	105	116
<b>TOTAL</b>	<b>433</b>	<b>826</b>

#### AID RECIPIENTS (Mil):

	23.1	37.3
--	------	------

#### ADMINISTRATIVE COST PER AID RECIPIENT (\$):

	18.77	22.30
--	-------	-------

\* Estimates are preliminary and may be refined as OSFA completes enhancements to its financial management systems and processes.

**NOTE:** Actual expenditures differ from appropriated funds because some appropriated funds span multiple fiscal years.

### NET LOSSES PER LOAN RECIPIENT

	1998 Actual
--	----------------

#### DEFAULT COSTS (\$ Mil):

Loan Defaults	3,144
Less Collections	2,369
<b>Net Losses</b>	<b>775</b>

#### LOAN RECIPIENTS (Mil):

21
----

#### NET LOSSES PER LOAN RECIPIENT (\$):

36.96
-------

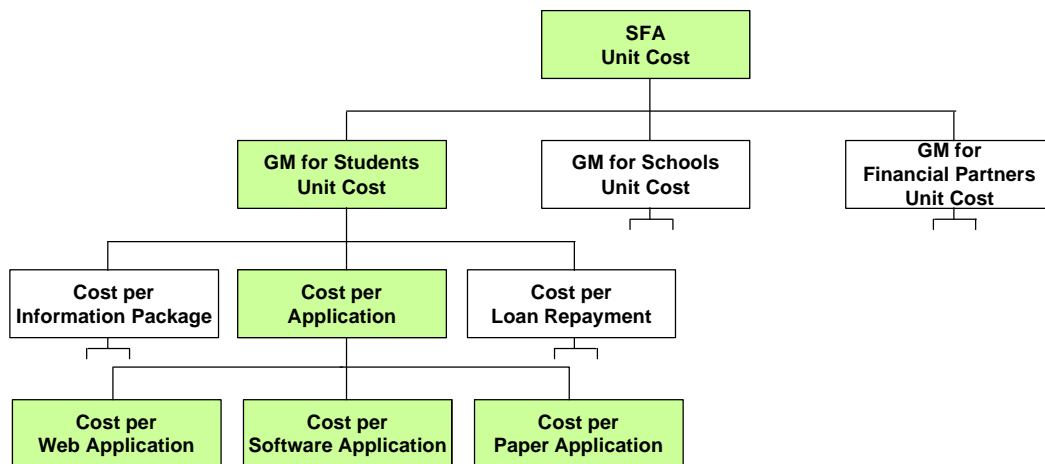


## APPENDIX D

### Managing Unit Costs

SFA's overall goal is to reduce its total unit cost. To accomplish that we will measure *disaggregated* unit costs and use them as management tools at every level in the organization. As illustrated by the following organization diagram, the General Managers for Students, Schools, and Financial Partners will all be able to track the unit costs related to the business processes that they control. Business process managers at the next level will similarly track their unit costs, which in turn will be further disaggregated so that in every part of the organization, managers know how much they contribute to the total unit cost.

### Drive Unit Costs Down to the Front Lines



Since our goal is to cut the *total* unit cost, we might not want to reduce every *element* of unit cost. For example, we might want to spend a little more money making electronic applications even easier to use in order to lure applicants away from the vastly more expensive paper forms. In a case like that, we would be *increasing an element* of unit cost (the unit cost of electronic applications) in order to *reduce our total* unit cost.

Currently, we do not have a financial system that makes it easy to track our administrative unit cost number or its sub-elements, such as the unit cost of processing applications. That is one of the key purposes of the new financial management system we are developing — to give every manager that unit cost information routinely. The initial elements of the new financial management system will be up and running in January.



## Appendix E

### Cost Comparison of FFEL and Direct Loans

When all taxpayer costs are considered, Direct student loans are less expensive for taxpayers than guaranteed student loans. The following estimates reflect the total federal administrative costs over the life of student loans made in fiscal year 2000 under both the Direct Loan program and the Federal Family Education Loan (FFEL) program. As a result, it permits a true comparison of the total costs of the programs.

- For every \$100 loaned this year, direct loans will be \$18 less expensive for the federal government than guaranteed loans (see chart below). The Direct Loan program has saved the U.S. Treasury over \$4 billion since it began in 1994, compared to the cost if all direct loans had been guaranteed loans.
- In general, direct loans are cheaper than guaranteed loans because (1) there are no federal subsidies for lenders and (2) interest earned on the loans accrues to the U.S. Treasury, instead of to private lenders.
- Borrowers of direct and guaranteed loans pay the same interest rate and comparable fees. The Direct Loan program has introduced competition to the student loan market, improving service, increasing customer satisfaction, and reducing student costs.

<b>Federal Cost per \$100 in Student Loans</b>		
	Direct Loans	Guaranteed (FFEL) Loans
Net Federal Subsidy Costs	(\$7.73)	\$13.05
Federal Administrative Costs	\$3.62	\$1.02
<b>Total Federal Program Costs</b>	<b>(\$4.11)</b>	<b>\$14.07</b>

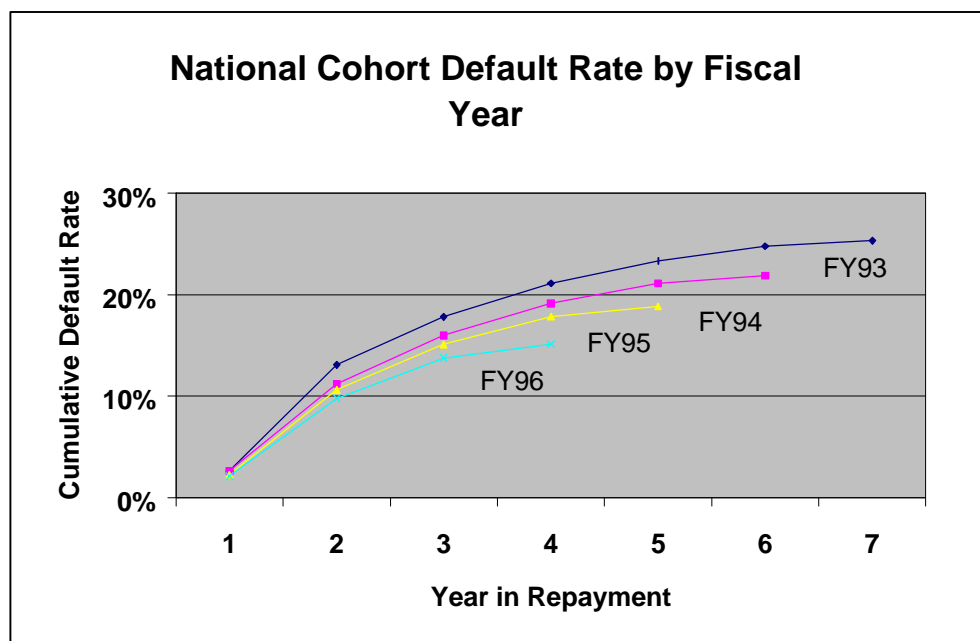
Figures reflect net present value of the total lifetime costs of student loans made in fiscal year 2000. Numbers in parentheses indicate net payments to the Treasury. Numbers are based upon most recent OMB economic projections and could change substantially under different interest rate assumptions.

- Net federal subsidy costs include interest payments on subsidized student loans; special allowance payments to lenders on guaranteed loans; and default costs. They also include revenue from fees, defaulted loan collections, and interest earned on direct loans.
- Federal administrative costs are the net present value of all lifetime costs incurred by the federal government, such as processing applications, serving customers, and disbursing and collecting loans.

## Appendix F

### Defaults are Down But Still Important

Defaults are the single most costly part of student loans. Default rates among borrowers less than two years out of school rose to 22 percent in 1990. Since then, aided by a strong economy, our concerted efforts to improve collections and remove problem schools from the program have reduced the two-year default rate to less than ten percent. The same kind of decline is evident in life-of-loan default rates as shown on this chart.



### Life-of-Loan Default Rates on the Decline

While we continue to monitor the two-year default rate, we will renew efforts to reduce the cost of defaults further, this time taking a more comprehensive approach. We will expand our attention to cover the life of the loan, not just the first two years of a typically fifteen-year repayment period. And, recognizing that the default *rate* ignores the important differences between large and small loan balances and between those that are potentially recoverable and those that are not, we will begin focusing directly on the *cost* of defaults, and include it in our aggregate unit cost calculation.